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Résumé de l'article

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Theorizing Japanese FDI to China

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Using mainly archival data, this paper examines the nature and causes of Japanese foreign direct investment (FDI) to China and theorizes it with inductive arguments. It proceeds as follows. After a brief introduction on China's robustness in the global investment market, it introduces the position of Japan as investor in this country, and proceeds with an examination of the major theories of FDI. It then examines the underlying causes of Japanese FDI to China in view of those theories. The paper concludes that, in addition to many investment-alluring incentives, most prominently China over time has infused, fostered, created, and nurtured numerous competitive advantages (pull-factors) within its investment proliferating environment, which ultimately ushered FDI from Japan to it. Domestic factors as well as global investment competitors drive (push-factors) toward China further induced Japanese multinational corporations (MNCs) to boost investment into China.

Introduction

From its centrally planned economic system (1949-1978), transition to market economic mechanisms in China started since 1978 with the introduction of major economic policy-reforms and open-market strategies under the leadership of Deng Xiaoping. Establishment of the special economic zones (SEZs) in the coastal region of Guangdong province was the milestone in its economic relations policy, which heralded the advent of a new era of embracing foreign capital, technology, and business management. In the initial stage of reform and transition (1979 to 1985), it received foreign funds mostly in development projects, and investments in business ventures were mostly with the state owned enterprises (SOEs) and to some extent in Greenfield sectors. Outside Chinese populated regions/ territories, the sources of such investments and development funds were the World Bank, the

International Monetary Fund (IMF), governments of Japan, the United States of America (USA), the United Kingdom (UK), Italy, Germany, Singapore, and Australia, and private business companies mostly from these countries. This amounted to $1.2 billion, $0.9 billion, $1.4 billion, and $2.0 billion respectively, in 1979-82, 1983, 1984, and 1985. The actual take-off of foreign direct investment (FDI) took place since 1985, when all the SEZs developed in the coastal region went into full operation and exhibited lofty business success without impediment, and with rather dynamic tutelage of the central government and regional governments. As of 2005, China holds the second position in the list of the FDI countries and receives a big share in Japan's FDI. Using archival data, this paper examines the nature and causes of Japanese FDI to China and theorizes it with inductive arguments.

China's Performance in Attracting FDI

FDI from All Sources: The amount of FDI in China from all sources reached from US$1.9 billion in 1986 to US$3.5 billion in 1990, registering an increase of about 86 percent in five years. Other than Hong Kong and Macao, Japan and the USA were the biggest investor countries. Taiwan Province emerged into the spotlight since 1986 and soon assumed the position the fourth biggest investor, although its political relation with the mainland was not all through lukewarm. The Chinese investors from other Southeast Asian countries assumed leading positions. From Asia, Singapore and South Korea and from Europe, UK, Germany, France, and Italy continued to invest at a constant pace, but investment from these four European countries remained within the range of 5 to 8 percent of the total inflow. Virgin Islands came to the limelight since 1993, progressively increased investment throughout the second-half of the 1990s, and led even the USA and Japan in the 21C with a share of 11 to 12 percent (Nakajima, 2005, pp. 180-1). Lax tax regimes of this region might have enticed the US/UK investments to make a detour to China through Virgin Islands.

Transfer of Hong Kong in 1997 and of Macao in 1999, and liberal politics in Taiwan together with an absence of its virtual embargo on investment to China added further to the plight of Taiwanese capital to the mainland. Japanese FDI remained more or less flattened from 1988 to 1992 and increased almost constantly from 1993 until 2004. The fluctuations in 1999 and 2000 cannot be traced to any specific changes in its domestic and global investment environments.

World Investment Reports (WIRs) compiled by the UN/UNCTAD show that year-to year cross-border investments in the world have increased with negligible fluctuation in the second-half of the1980s; unabatedly throughout the 1990s to a record high level of 1.492 trillion in 2000, but fell within the range of $735 to $632 billion in the first four years of the millennium decade. China's average share ranged at 2.8 billion (1.9 percent) in the second half of the 1980s, 22.9 billion (9.9 percent) and 41.9 billion (6.8 percent) respectively in the first and second halves of the 1990s, and 53.4 billion (7.9 percent) in the first four years of the 21C. This amounted from 20 to 50 percent of gross FDI flows to all developing countries

(except China), and it demonstrates robustness of the Chinese market as investment destination. The USA throughout the1990s, the UK in 1998, 1999, and 2000 received more FDI than China (UNCTAD, 2002, p. 283). In this decade of 21C, as investment host, China turned out as the champion over all developing countries/economies, ASEAN countries, but was bitten by only the USA, Luxembourg (2003 and 2004), UK (2001, 2002, and 2004) (UNCTAD, 2005, p. 303), and France and the Netherlands in 2001 (UNCTAD, 2002, p. 303). FDI to Hong Kong and Macao, which are shown separately in the WIRs, if included as FDI host China will rank next to only the USA. Although its target of $200 billion FDI by 2005 could not be unachieved, China has turned out as the single largest FDI recipient among all developing countries with an amount of $60.6 billion in 2004 (UNCTAD, 2005, p. 303).

FDI from Japan: China's share in Japan's FDI in the 1980s was always less than 1 percent of its total FDI, except in 1987 when it recorded at 3.7 percent. The aggregate amount of FDI (world) increased almost constantly during the 1990s, but decreased in the 2000s. Investment to China increased to $4.5 billion in 1995, which accounted to 8.8 percent of its total FDI of that year, but throughout the second half of the 1990s it declined, and reached even to US $751 million or 1.1 percent in 1999. It rebounded again since 2001 and reached US $4.6 billion or 12.8 percent of aggregate FDI in 2004. While in the 1980s Japan's year-to-year FDI amounted to $67.5 billion in 1989 as against the record of $8.9 billion in 1981, where Asia, including China also, held the biggest share of $3.3 billion or 37.4 percent (1981), which stood at $8.2 billion in 1989 (JETRO, various years).

In this decade, Japan's total FDI, FDI to Asia as a whole, and FDI to China increased. It must be the impact of Plaza Accord, needing Japan to spread investment bases to ASEAN, Asian NIEs, and China. Up-and-down in the 1990s show no specific pattern, but it registered at $66.7 billion in 1999, where Asia's share in percentage and aggregate constantly increased, and reached at the peak of this decade in 1999, then declined from 2000. Explosion of economic bubble, malaise in the banking sector, and above all corporate restructuring led to this tide and wave. China increased its share constantly until 1995, but it fell constantly from 1996 to 2000. Contrary to the above pattern in the1990s, China increasingly bagged more Japanese FDI during 2001-2005. Japan's cumulative FDI (from 1951-2004) stood at $915.5 billion, where Asia as a whole hosted 17.5 percent, and China 3.4 percent or $31.5 billion. As one country, the USA is the biggest host of Japan's FDI over the UK, the Netherlands, Caiman Island, and Panama, and China holds the sixth position if countries in the regional blocs (NIEs, ASEAN, EU15, and Oceania) are taken into account separately (JETRO, Ibid.).

Theories of FDI: A Brief Overview

FDI theories are indeed extensions of international trade theories, which were formulated to theorize the nature and causes of international trade and to logically approach the issues and circumstances that condition the same. All existing theo-

ries enormously incorporate elements from a wide array of research and practical disciplines of pure economics, development economics, international economics, business history and management, econometrics, statistics, mathematics, public administration, international business and management, industrial organization, industrial development theory, and international development. Here some important theories will be introduced in a nutshell.

Adam Smith has introduced the "doctrine of absolute advantage" and David Richardo, the "doctrine of comparative advantage" in connection with production and distribution of goods. The former theory is built on the "scale of economies", and the latter on the "specialization" or efficiency in allocating "limited factors of production" (factor endowments), which lead to exchange of commodities amongst countries or regions.

The theory of Heckscher-Ohlin, also called "factor proportions theory", on the other hand, is founded on the assumption of "uneven distribution of factors of production" among countries, but unlike Ricardo, it argues that manifold factors might exist in a country, and comparative advantage is influenced by the interaction among those factors or resources (Krugman and Obstefld, 2002, pp. 66-86). Trade between countries, in other words, international trade takes place due to intensity in the use of those factors in which they abound. All these theories are known as "conventional trade theories", and these assume a state of perfect competition in the market.

Theories of FDI, in fact, received vital forces from the seminal works of Hymer (1976), which challenged the weaknesses in the assumptions inherent in the above trade theories, and established the fact that firm-specific advantages (strengths) generate "intangible" corporate wealth, and create leeway of competition. FDI, in his opinion, takes place within a state of imperfect market environment, and the "firm" or multinational corporations (MNCs) other than the country is the "real actor" (Ozawa, 1992) in transferring assets outside the national boundary.

Krugmen (1983 and 1990) has intertwined "firm-specific variables" and "country-specific variables" (factor endowments), which generate transaction cost incentives through integration of up-stream and down-stream activities (inside a firm and within the country), and movement of MNCs across national boundaries arise from unequal factor endowments to reap the benefit of unequal factor prices. This theory of Krugman is thus a refinement of his other propositions and theories, namely the theory of intra-industry and the theory of technological competition, and incorporates elements from all of them.

Dunning's (1979 and 1988) "eclectic theory of international production" has further enlarged the framework of FDI by MNCs by incorporating the comparative factors in both home-and host-countries in that three sets of advantages, namely ownership (O) specific advantages, location (L) specific advantages in the home or host countries, and advantages for internalization (I) from ownership, determine the level, form, and extent of international investment and distribution, and is called

OLI in short. Dunning has classified FDIs into four categories—market seeking, resource seeking, asset seeking, and efficiency seeking—according to their objectives.

Vernon's "product-life cycle theory" or P-L-C (Vernon 1966, pp. 191-207) explains both international trade and investment in sequential stages or hierarchies that goes along with the life cycle of a product. The product-life, as he postulates, consists of three stages—new product, maturing product, and standardized product. At the early stage, since inputs and processing specifications remain unstandardized, the product is manufactured in the country of its origin considering national and other locational factors, and is introduced to foreign markets through exports. With the expansion of demand in the market, standardization drives the product to the maturity stage (the second stage), and price competition among manufacturers flares up. Manufacturing facilities are established, in other words, investments are done in other high-income countries like the USA. In the third or more advanced stages of standardization, production units shift to less-developed countries to take competitive advantage of low cost and other locational factors, and goods manufactured there are exported back to the home country or to other markets.

On the assumption of market imperfection, Peter Buckley and Mark Casson have pioneered the development of the "internalization theory" of FDI, which Rugman (1985) completed, and it explains the process of expansion of multi-plant firms, both domestically and internationally. For expanding domestically, a firm needs to explore advantages (vertical integration, quality control, patents, R&D, human force, and so forth) inherent in them (internal factors). But in case of international expansion, exploration of such advantages takes place across the national boundaries. As Rugman (1985) states, this theory possesses intimate relationship with Dunning's "eclectic theory", which combines ownership, internalization, and location-specific advantages into a comprehensive model. The internalization theory combines the first two elements into one set of firm-specific advantage, since ownership advantages are internalized to make them more effective. The country or location-specific advantages (transaction cost and environmental factor) as such remain the second important determinant of FDI decision. Both theories are thus reconciled in essence and with assumptions (Rugman, 1985).

By critically observing and analyzing the most successful ten nations that have achieved and sustained economic development in recent years, Porter (1990, p. 545) has extended the "stages theory of competitive development". The countries have achieved development in four distinct stages: factor driven, investment driven, innovation driven, and wealth driven. The first three of which involve successive upgrading of their competitive advantages, but the fourth stage is one of drift and ultimately decline. From this theory, it can be derived that at the micro-level, a business firm capitalizes on the competitive advantages at macro-levels, i.e. the nation, and uses those for international expansion and competition. The government plays a crucial role in creating competitive advantages of its nation (Porter, Ibid., pp. 126-128). Porter has stylized the determinants of national advantage, namely factor conditions, demand conditions, related and supporting industries,

firm strategy, structure, and rivalry are stylized into a diamond shape, and it is popularly called Porter Diamond. Individually and collectively, these determinants create the context in which a nation's MNCs come into being, compete in the home market, and accumulate strengths to penetrate the foreign markets (Porter, Ibid., pp. 71-130).

Aharoni (1966) observed that an individual firm's geographical horizon (a locality, a sub-national region, or a home country) changes in the course of its growth due to changes in its internal and external environmental forces, and stimulates it to "go international". Aharoni's proposition resembles Weber's industrial localization theory, which is one of the earliest researches that examined the concentration of factories in industrial enclaves to reduce the burden of population migration to large urban cities. Weber emphasized the need to minimize the total cost of transporting raw materials to the factory and of final manufactures to the market by locating industries in the close proximity of markets. Originally if the cost of production, including transportation cost of final products, is higher than the cost of final product, including the transportation cost of raw materials, the factory should be established in the proximity of its market, and vice versa. Cost of production, in addition to raw material cost, includes labor cost, can be minimized by locating industries to low labor-cost regions in other countries (Suzuki, 2001, pp. 134-145). These geo-business models give a comprehensive framework of explaining and pinpointing all international business actions of any firm, and not only of MNCs. Three set of variables, namely conditioning variables, motivation variables, and control variables greatly influence the locational aspect of a firm, and interactions among these variables entice or discourage firms to take businesses across national boundaries. National policies of economic development, through import-substitution or export-oriented industrialization, historically created a wide array of physical and fiscal facilities (factors) through the establishment of developmental enclaves with diversified incentive offer to MNCs, non-MNCs, and domestic enterprise.

Political approaches of FDI include political and power aspects underlying FDI, and most importantly, they emphasize how changes of world political blocs pose impact on FDI flows. Gilpin (1975, p.19) argues that international political orders created by dominant nations (core country) for security interests provide a favorable environment of economic interdependence and corporate expansion in other countries (periphery). Known as "core-periphery model", it is a dominant power that assumes the "core" position and sends goods and investments to countries dependent on it or adjacent to its power of business and economic activities, "the periphery". Pax Britannica and Pax Americana are two most important structures, the former explains UK's position in the pre-war period, and the latter, the US position in the post-WW II period (Gilpin, Ibid.).

Marxist, and even many non-Marxists, economist view the relationship between partners in P-L-C as "hierarchical and exploitative". In other words, they view that growth and development outcomes instead of flowing to the lesser developed periphery move in reverse direction, that is, from the "global, underdeveloped periphery to the centers of industrial financial power and decision" (Gilpin, Ibid.), which

as such makes the periphery more dependent on the core.

In order to describe the movement of goods and investments among markets during the situation of unbalanced growth, Akamatsu (1961) has extended the "geese-flying pattern (G-F-P)". According to the G-F-P, products, firms, technologies, investments, and ultimately countries move among locations in search for market opportunities, forming a pattern of wild-geese that migrate to comfortable locations in different seasons of the year. Products, firms, and so forth are analogous to the geese seeking safe nests. This model is vividly referred to while explaining economic growth in Japan and Asian fast growth economies.

On the theoretical and practical premises of this G-F-P, Kojima (1975) has extended "macro-economic theory" of FDI with two propositions—one based on the classical Richardian doctrine of comparative advantages, and the other on his own classification of "mutually beneficial type of FDI". The core concept of this model is that countries in trade gain more from a situation of immobility of factors through FDI, provided that such FDI goes from the "disadvantaged sectors" of the home country to the" advantaged sectors" of the host country (Kojima and Ozawa, 1984, pp. 1-20).

Fayerweather (1969) argues that a firm can transfer its management resources, superior skills of product, process, information, technology, and management, in package with FDI, and using that can create competitive advantages for it in other countries, and is called "management technology transfer theory" of FDI (Yamamura, 2001, pp. 39-40).

Theses, anti-theses, and syntheses prevail in plenty, some come and some go with or without notice, and it can be concluded in line with Koontz (1961) that FDI theories can perfectly be interwoven into "FDI Theory Jungle" comprising of innumerable full-or sub- approaches or models. All have uniqueness and originality in some forms or others, and apply validly to explain the nature and causes of FDI and operations of MNCs.

Theoretical Outlook Of Japanese FDI To China

Increasing Japanese FDI to China is indeed a functional outcome of two divergent sets of factors, push and pull, in that the former composed of historical and neo-factors in Japan pushes MNCs to extend networks to China, and the latter composed of country and market specific advantages in China pulls MNCs investments into it. This situation can be explained with references to existing researches and from logical inductions from facts to frame a hybrid theory of Japanese FDI in China.

Country-Specific Competitive Advantages Available, Created, and Promoted in China

Japanese FDI surged to China, as was seen, at first in the aftermath of yen appreciation in the second half of the 1980s, and secondly since 1993. High growth

of the Chinese economy as the result of economic reform and market liberalization and recognition of the same by other nations induced Japanese MNCs to incorporate China into their regional production and market networks to reap the benefit of its national endowments in labour, consumer market, and its nurtured competitive advantages toward catching-up with the developed countries. Japanese FDI was not absolutely resource-or-asset seeking, rather market-and-efficiency seeking to serve the Chinese domestic market in the first instance and then home market, and to maximize overall corporate efficiency and performance thereby.

Asian currency crisis and increase of labour costs in Singapore, Malaysia, and Thailand induced most MNCs to relocate plants, and divert new investments to China. Sikorski and Mennkhoff (2000) regarded this trend as revolving of FDI within the region in response to its transforming comparative advantages. Zhou and Lall (2005) found that China does not crowd out FDI to other countries; rather its industrial capabilities in skills, technology levels, supplier bases, infrastructure, and its large market size allow MNCs to reap scale and scope of economies more competitively than in other countries in the region.

External orientation of development strategies that emerged from its market reforms and growth of efficient human capital and social concessions in the economically advanced provinces added new forces to attracting FDI. The Government of China explicitly directed its liberalization and marketization policy to promote the development of the southeastern coastal provinces, and to divert that toward the northwestern provinces. As is evident in the Western Region Development Program of the Government, this spatial dimension of development has put emphasis on infrastructure development, such as the upgrading of human capital through education, and inward migration of needful human force, which was very similar in the development policy of the coastal provinces.

International pressure, from the US in particular, to revise the existing monetary and banking systems to strengthen the undervalued, and thus highly competitive renminbi, and to reform the operation of the commercial banks (Daily Yomiuri, 2005, p. 4) will strengthen China's advantage. China's national industry localization policy to pool industries in different regions based on different natural endowments and development levels, is quite akin to the historical strategy of polarizing growth activities in designated centers in market economies.

From 1999, the Chinese government has removed restrictions, liberalized regimes and administrative mechanisms, and above all abolished restrictions to foreign entry (FDI) in some industries and sectors. It also initiated new bilateral investment treaties (BITs) and double taxation treaties (DTTs) with many countries and to specifically earmarked industries. Other measures included enhancing guarantees on the protection of intellectual property right and against expropriation, changes in legislation, environment aspects, and accounting and audit. As China's bid to access into the World Trade Organization (WTO) was at the final phase, it removed most tariff and non-tariff barriers and embargo on local contents in the final manufactures, technology transfer, and local R&D (UNCTAD, 2002, pp. 54-

5). Further liberalization was introduced to the services sector, especially financial services, distribution (wholesale, retail, franchising), media, education, with more incentives and opportunities to establish R&D centers, regional HQs, and reform SOEs. It signed agreement with ASEAN to establish free-trade area by 2010. As the consequences of embracing market mechanisms and adding new and liberal elements in its National Economic and Social Development Plan of 2005, China's market imperfections in the yardstick of market economies in the West took a new shift to more perfection.

Domestic Forces Inducing Japanese MNCs to Invest in China

Japan lost its colonies in China and other Asian countries in WW II, entered into peace treaty with the USA, was looked after by the GHQ, and virtually entered under the umbrella of Pax Americana. Although not recognized in the political development history, it was indeed demise of the Pax Japonica. However, Japan gained free access to the US product and investment markets under a fixed exchange rate agreement of US$1 to 360 yen. From the 1970s onwards, Japan constantly maintained a positive trade balances with the USA and most of the developed nations. Negative trade balances of trade with the USA gave rise to severe trade frictions, and the Plaza Agreement of 1985 resulted in the appreciation of Yen against US dollar and other major currencies. Japan firms had to look for new manufacturing bases in countries possessing relatively cozy business and diplomatic relationship with the West, and especially the USA. These coincided with the import substitution-cum-export oriented trade policies adopted by the NIEs and ASEAN countries since the 1970s, all of which are endowed with surplus labours and huge untapped primary resources and offered infrastructure facilities by establishing industrial enclaves, namely IEs, FTZs, LMWs, IPs, and with lucrative financial and fiscal incentives. Japan entered into bilateral and regional trade and investment agreements with these countries, which further enhanced factors mobility from Japan, and its cultural similarity with ethnic Chinese population segments in those countries eased MNCs movement within this region, and ultimately has paved the way to penetrate the Chinese market.

Regional Competitiveness of China

UNCTAD's 2005 Survey of FDI Prospects for 2005-2008 revealed that international FDI experts and TNCs rank China (85 percent) as the best global business location among such top ten countries, including the USA (55 percent), India (42 percent), Brazil, Russian Federation, the UK, Germany, Poland, and Ukraine. TNCs (87 percent) in this survey ranked it as the best location over India, the USA, Russian Federation, Brazil, Mexico, Germany, the UK, and Canada (UNCTAD, 2005, pp. 33-5). China is found to adopt greater investment targets, strengthen investment policies, offer additional incentive packages, introduce further liberalization, and adopt promotional measures. Among its Asian counterparts, albeit with much lower points, India, Singapore, and Thailand were on the list. China's national advantages are more promising than those available at other Southeast Asian countries, and it is adding more forces to those by introducing pro-invest-

ment legal and market measures. Liberalization of FDI in banking and financial sectors has improved its competitive edge (UNCTAD, 2005).

Surveys on overseas business operations of Japanese manufacturing companies by the defunct Japan Bank for International Cooperation (JBIC) showed China as the most promising location for investment and business operation for five consecutive years from 2001-2005. The Survey in 2005 found that 71.2 percent of the respondents favor China as the most promising location for business promotion over Russia and other CIS, Central and Eastern Europe, other Asian Countries/ Oceania, and North America. With China at the top, other Asian favorites are India, Thailand, and Vietnam. Although the stance toward China has declined compared with the previous year, FDI in China is aimed to increase sales in the domestic market and in ASEAN and to reduce sales in Japan. Respondents view only limited impact of anti-Japanese demonstration on their operations in China. Production bases in China manufacture general-purpose products and will shift to high-value-added products (JBIC, 2005).

Responding companies attached high priority to China and India as more potential markets over the EU-member countries due to geographical proximity, which facilitate easy access to both production bases and final markets. In terms of industrial category, electrical equipment and electronics or E&E (41.0 percent) and general machinery (23.3 percent) show relatively higher tendency to produce and sale in the same bases. The automobile makers are more prone to produce near the market, but E&E companies are keen to move production to low-cost overseas sites to meet the need of short product cycle and pressure of cost reduction (JBIC, Ibid, p. 8).

Within China, all MNCs irrespective of industrial categories intend to strengthen and expand their operations in Eastern and Southern regions, E&E manufacturers also in the same regions, but automobile makers favor Southern regions (59.7 percent) over Eastern regions (44.1 percent), which might be due again to affluent regional markets, easy access to affluent Hong Kong and Macao, and facility of exporting to other countries. Since industrial accumulations in China takes place corresponding to expansion of operations by Japanese automakers, more companies prefer Southern regions to other regions (JBIC, Ibid.). Functional clustering shows a strong tendency to locate production functions in Southern regions, distribution functions in Northeastern regions, and regional control functions in Northern and Southern regions. This corresponds with the status of development at sub-national levels in this country. Japanese manufacturers are more interested in increasing revenues and earnings through reinforcing business operations in the emerging sub-national markets.

The Perceived Theory Of Japanese FDI In China

Huge research literatures explain theoretically and empirically the underlying reasons of success of the Asia's high growth economies, and regard them as the world's growth pole that create and emit forces to foster development support-

ive environment for the rest of the global economy. China witnessed a dramatic growth at the average rate of about 10 percent in the 1980s, more than 10.3 percent in 1990s, and more than 9 percent in the year 2000. Max Weber's cultural configurations of Confucianism that propels economic development has been widely attributed to by many development economists and historians while explaining development in Asian NIEs. Confucianism, which forms the foundation of Chinese societal interactions and work ethics, has historically modeled the economic developmental environment of this nation (Chen, 1989, p. 63). China's state sponsored socialist policies, moreover, was always development oriented and "economic" development supportive, either with or without courting capitalistic modus operandi, and welfare oriented. Its government can be admired as pro-development or "conducive autocratic" and has ensured a stable environment for investment, modernization, and socio-economic transition. FDI is regarded as a solid substitute for Confucian culture (Chen, Ibid, pp. 63-70). China's Open Door Policy was, indeed, a rational and robust challenge towards courting the western market-economy fundamentals, and a realistic "demonstration" of the advanced Asian neighbors. Buckley, Clegg, Wang, and Cross (2002, pp. 1-28) viewed FDI as one of the most palpable outcomes of the same policy, which has also bolstered FDI and foreign firms' activities in the economically strong provinces.

The G-F-P model of Akamatsu does not optimally explain China's development or its FDI harvesting. Chen observes the matter as follows: "China is not a goose but some other huge bird flying side by side with the geese. China has the potential of complementing and competing with the various layers (author adds, raw materials, product, technology, industry, country) of the flying geese at various levels of industrial production. In some areas, China is competing or potentially could compete with Japan and the NICs. ------China is also producing downstream labour-intensive products in competition with ASEAN-4" (1989, pp. 70-71).

This locational phenomenon of Japanese MNCs production bases in NIEs/ ASEAN, and in the next phase, from NIEs to ASEAN seem somewhat akin to the propositions in Vernon's P-L-C and Akamatsu's G-F-P models of economic development. Japan, however, did more investment in USA and Europe, and only recently invests in big amounts to China. Most of the Japanese MNCs did not develop new products, nor did introduce new products to the developed country markets other than their own one. It can thus be argued that P-L-C and G-F-P models fail to explain fully the movement Japanese FDI or MNCs to China.

The country-specific factors and conditions in China can be fairly accommodated in Porter's diamond model and country-specific advantages in Rugmen's theory, as was mentioned earlier. The government maneuvers trickily and wittily to nurture, multiply, and refurbish its country-specific advantages, which can be attributed to as "pull factors". Traditional push factors in Japan, such as, high labour costs, lose of viability by low-tech, light industries at home are of paramount importance, but Japanese MNCs aim to reap advantages inherent in China's market structure and also those arising out of its rapidly transforming social-market environments, which can be attributed to as "neo-push factors", propelling their invest-

ment into the Chinese market.

The fact that, Japanese MNCs attach importance to China over other distantly located countries and to the affluent sub-regions within China, further leads to infer that P-L-C and geo-business models explain some Japanese MNCs' FDI to China. While Toyota and other major automobile makers have established their operations in China with R&D facilities, Sanyo, Matsushita, Hitachi, Toshiba, and many other small and non-reputed E&E makers have done the same, where the demand for household appliances, electronics goods, and low price fuel efficient private vehicles are increasing at galloping rates. This implies that companies are more in search of lucrative markets in China, the geographical factors and other factor endowments more important to them, and the stages of products are illusory or less visible. Proximity of China's Eastern and Southern regions to Japan further supports this argument.

Japanese FDI flowed to China due to its MNCs effort to divert their firm-specific competitive advantages (superior HRM techniques, TQM, JIT and kanban) to the culturally akin (cultural advantage) and geographically close (market proximity) huge markets in China. As found, local competitors are less equipped in terms of management, technology, QC control, market promotion, and distribution than their Japanese counterparts, but Japanese MNCs possess the same competitive relations among them as it is in the home country. Thus, it is seen that Fayerweather's proposition of "transfer of management resources" better explains FDI by Japanese MNCs, in that, they transfer their more advanced management resources to China to seek its country-specific advantages (Yamamura, 2001, pp.36-40). China caught those FDI with diligent and wit. China's reform policies and market oriented development programs created and nurtured its country-specific advantages. Japan, however, is a late entrant to automobile and other star-product sectors in China, and is outdone by German, the USA, France, and Asian rivals from South Korea, Singapore, and Taiwan in some cases.

Concluding Remark

Thus what emerges broadly from this study is that, a single existing model is not sufficient to theorize Japanese FDI to China, rather a host of theories or models explain the different aspects of Japanese MNCs' practices/ FDI in this country. While more empirical research, using statistical and econometric models, is needed to theorize and support findings of this research, in its status quo it can be called a Japanese FDI a la China model. It incorporates elements from many theories, as mentioned above, to explain the scenarios surrounding Japanese FDI in China.

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